UNITED
NATIONS

DP

Governing Council
of the United Nations
Development Programme

Distr.
LIMITED

DP/1992/BFC/L.2/Add.5
18 May 1992

Original: ENGLISH

BUDGETARY AND FINANCE COMMITTEE
Thirty-ninth session
4-29 May 1992, Geneva
Item 3 (c) of the agenda of the Budgetary
and Finance Committee

ADOPTION OF THE REPORT OF THE BUDGETARY AND FINANCE COMMITTEE TO THE GOVERNING COUNCIL

Draft report of the Budgetary and Finance Committee

Rapporteur: Ms. Heather DOWSETT (New Zealand)

CHAPTER III. Financial, budgetary and administrative matters

C. Audit reports and other matters

Status of management services, report of the Administrator

1. For its consideration of agenda item 3 (c), the Budgetary and Finance Committee had before it the report of the Administrator contained in document DP/1992/43.

2. The Director of the Office for Project Services (OPS) introduced the item, and said he was pleased to report that the value and applicability of the Management Service Agreements (MSAs) as a means to assist developing

countries in utilizing foreign assistance, both multilateral and bilateral, in a better and more expeditious manner, had been borne out by experience.

3. He stressed that concerns expressed by Governing Council members regarding MSAs had been effectively addressed over the years, notably the perceived risk that activities under MSAs would rather reflect donor interests, and not be fully compatible with the development priorities of UNDP recipient countries. He considered that the risk had been practically eliminated. In the first place, more and more MSAs were supporting multilaterally funded projects, ranging from those of the International Fund for Agricultural Development (IFAD) to the World Bank and regional development banks. Furthermore, bilateral MSAs were now systematically scrutinized together with the recipient countries to make sure that they "multilateralized bilateral aid" rather than "bilateralized multilateral capacity".

4. As regards another perceived concern, that MSAs would be designed and handled in an isolated manner without any linkage to UNDP priorities and activities, the Director of OPS reassured members that MSAs were accepted only after thorough examination and clearance by UNDP field offices and bureaux. On many occasions MSAs had been directly linked to UNDP programmes, thereby enhancing the coordinating role played by UNDP in the countries concerned.

5. The Director concluded that MSAs brought additionality, and also helped to fill crucial management gaps in project implementation, thus supporting national execution. He also emphasized that, to the extent possible, OPS would provide managerial services in combination with national capacity-building efforts.

Summary of the discussion of the Committee

6. In general, the members of the Committee acknowledged the usefulness of MSAs. Most of the members welcomed the trend towards "multilateralism of bilateral aid". Members endorsed the continuation of efforts to ensure complementarity with UNDP programmes and simultaneously to encourage the national execution of capacity-building. One delegation welcomed measures to strengthen OPS quality control mechanisms as part of the recent restructuring of the Office.

7. One member expressed concern about the increasing use of the MSA modality by bilateral donors. Adherence to the newly established project acceptance policy was emphasized. Another member pointed out the benefits of the

modality for donors, including effective and efficient project execution, where no bilateral capacities existed.

8. Several members stressed the need for continued compliance by OPS with the agreed guidelines on MSAs. A number of members considered that further efforts should be made to ensure full financial accountability and recovery of delivery costs. One member suggested that fees should be established on the basis of general guidelines rather than on a project-by-project basis.

9. Clarifications were sought of procurement rules and regulations regarding international bidding and hiring of consultants under MSAs, notably in relation to projects funded by the World Bank, the International Development Association (IDA) and the International Development Bank (IDB). Support was expressed for measures to ensure that developing countries were fully involved in the international bidding process. One member pointed out that fuller use could be made of international competitive bidding procedures.

10. One member expressed concern about the impact of extra-budgetary activities on the central funding and coordinating role of UNDP. Some members suggested that the future role of OPS, within UNDP and the United Nations system of operational activities, should be the subject of a comprehensive review at the next session of the Governing Council. One member suggested that the impact of OPS services might be discussed in that context. With regard to full cost recovery, it was suggested that UNDP should provide information showing the magnitude of the income in question on a country-by-country basis, together with an analysis of the consequences of the income for the programming process at the field level. One member expressed the view that the item on management services should be considered by the Governing Council every three years, rather than biennially, as at present.

11. One member expressed the hope that greater emphasis would be given to the issue of gender balance for training awards.

Response of the Administrator

12. The Director of OPS took note of the recommendations made by the members, particularly the need to step up project evaluation efforts. He said that effective evaluation was being given constant attention. The criteria set out in the policy acceptance strategy were also being applied to MSA projects. He added that, in general, as a result of closer scrutiny of projects submitted to OPS for execution, the number of projects accepted had decreased.

13. The Director provided additional information on the calculation of fees. This was undertaken on a project-by-project basis, but following a standard formula. The objective was full recovery of UNDP costs incurred both at headquarters and in the field.

14. On the question of procurement, he explained that OPS adhered strictly to rules for international competitive bidding when providing services to governments for multilaterally funded projects. He noted in that regard that IDA rules and UNDP rules were virtually identical, and that in fact an effective double check mechanism operated.

15. He pointed out that the allocation of fees between field offices and OPS headquarters was done on the basis of estimated actual costs, which varied with the scope and nature of the services provided.

16. The Director also indicated that training awards were allocated with due regard for gender balance. However, the selection of candidates proposed was largely done by the host countries, who should themselves be encouraged to focus more on gender balance.

Recommendation of the Committee

17. Following its consideration of the subject, the Budgetary and Finance Committee recommended that the Governing Council adopt the following draft decision:

The Governing Council,

Recalling its decision 88/54 of 1 July 1988, by which it requested the Administrator to report to the Governing Council every two years on the status of management services undertaken by the United Nations Development Programme,

Also recalling its decision 90/46 of 22 June 1990, by which the Governing Council approved the amended guidelines submitted to it on the provision of management services,

Recognizing the impact on the development process and on recipient countries arising from the complementarity of management services to United Nations Development Programme core programmes,

Stressing that the multilateral character of the United Nations Development Programme and its role as a central funding agency for technical cooperation should not be weakened by the use of Management Service Agreements,

Reaffirming its decision 91/48 of 21 June 1991, particularly paragraphs 2 and 3 thereof, in connection with management services agreements,

Also reaffirming the principle of the sole prerogative of the recipient countries to design, formulate and implement their priorities and programmes,

1. Concludes that:

(a) The principles and guidelines enumerated in Governing Council decision 83/5 and reaffirmed in decision 90/46 remain valid;

(b) Management services constitute, in principle, a practical and flexible mechanism to increase the capacity of recipient countries to absorb external assistance from both multilateral and bilateral sources;

(c) The use of management services enhances the overall aid coordinating role of United Nations Development Programme at the field level;

2. Requests the Administrator to continue to observe the principles and guidelines mentioned in paragraph 1 (a) above, and to use management services to enhance the positive effects described in paragraphs 1 (b) and 1 (c) above,

3. Authorizes the Administrator in the coming years to continue to respond to requests for management services in relation to programmes funded by sources other than the United Nations Development Programme, in line with the Governing Council guidelines;

4. Requests the Administrator to bear in mind that management services should be viewed as assistance to developing countries in response to their specific management needs, and urges the Administrator to ensure that Management Service Agreements are implemented with a view to ensuring national capacity-building, and are not detrimental to that process;

5. Requests the Administrator to adhere strictly to the rules of international competitive bidding when providing services for multilaterally funded Management Service Agreements, and to ensure that the appropriate United Nations Development Programme contract review process is followed;

6. Recommends that in the future a report on management services be submitted to the Governing Council as part of the annual financial report and audited financial statements and as part of the annual report of the Office for Project Services, to be reviewed triennially by the Council, notwithstanding any overall review of the role of the Office for Project Services in the future.